

**PENINSULA COMMUNITY LIBRARY**

**TRAVERSE CITY, MICHIGAN**

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**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2006**

# **PENINSULA COMMUNITY LIBRARY**

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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Peninsula Community Library	County Grand Traverse
Fiscal Year End 6/30/06	Opinion Date 10/27/06	Date Audit Report Submitted to State 12/15/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

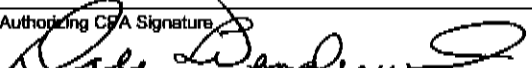
**5**  
**11**  
**Y**

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.		Telephone Number (231) 946-2300	
Street Address 928 S. Garfield Ave., Suite 3		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Dale L. Vanderwal, C.P.A.	License Number 11101

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

**INDEPENDENT AUDITOR'S REPORT**

October 27, 2006

Board of Directors  
Peninsula Community Library  
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of Peninsula Community Library as of and for the year ended June 30, 2006, which collectively comprise Peninsula Community Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Peninsula Community Library management. Our responsibility is to express opinions on these financial statements based on our audit.

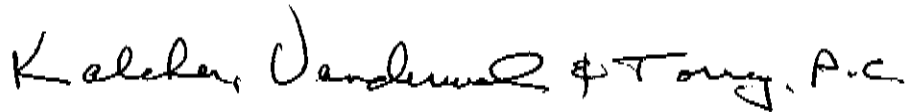
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Peninsula Community Library as of June 30, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

### **INDEPENDENT AUDITOR'S REPORT - Continued**

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2006 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



Certified Public Accountants

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 27, 2006

Board of Trustees  
Peninsula Community Library  
Traverse City, Michigan 49686

We have audited the general purpose financial statements of Peninsula Community Library, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Peninsula Community Library's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

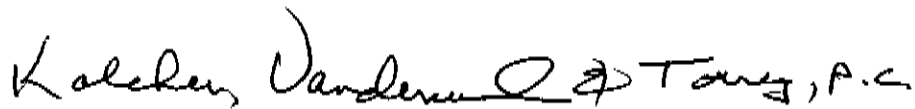
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Peninsula Community Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "K. A. Chen, Vanden O. & Tang, P.C.", written in a cursive style.

Certified Public Accountants

**PENINSULA COMMUNITY LIBRARY**  
**LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FISCAL YEAR JULY 2005 – JUNE 2006**

The MD&A is intended to serve as an overview analysis  
of the financial condition and operating results of the library.

Please direct questions regarding this report to:

Victoria Shurly, Library Director  
Peninsula Community Library

2735 Island View Road  
Traverse City, Michigan 49686  
231.223.7700



## **PENINSULA COMMUNITY LIBRARY MANAGEMENT DISCUSSION** **AND ANALYSIS CONTINUED**

### **Relationship of Financial Statements**

The basic financial statements contained herein include information that presents two different views of the Library using the modified-accrual and full accrual methods.

The individual fund balance sheet/statement of net assets and liabilities and the individual fund statement of revenue, expenditures and changes in fund balance include information about the Library's General Fund under the modified-accrual method.

The modified-accrual method focuses on current financial resources. The full-accrual method focuses on long-term economic resources and presents a statement of not only how services were financed in the short-term, but also what remains for future spending. Under the former system, capital outlay is an expense. Under the latter system, capital outlay is capitalized as an asset.

Under the previous system of fund-based statements, the Library has traditionally accounted for compensated absences under Long Term Debt Transactions. Under GASB 34 requirements, these are now reflected under the statement of net assets.

Where appropriate, comparisons have been made to last year's expenditures.

### **The Library as a Whole**

The Library's net assets increased by \$29,484.00 this year over the previous fiscal year. The Library's primary source of revenue is provided by the Traverse Area District Library through an associate library agreement with the District Library to provide library services to the people of Peninsula Township. Under the agreement, the District Library provides an amount not less than .3 mills of the State equalized valuation of taxable property within Peninsula Township to the Peninsula Community Library. This amount was approximately 74% of the year's revenue. This amount is about 5% higher than last year due to an increase in assessed property values. Other major sources of revenue include penal fines, State Aid and patron donations. Patron donations were higher during the year due to an active campaign to solicit them.

Salaries account for the largest expense in the Library's budget, which equated to approximately 53% of total expenditures. This compares with 56% last year. Pension plans are offered to the Director and Assistant Director. Employer contributions amount to 13% of covered payroll. No employee contributions were made for the year. Reimbursement for health insurance is offered to the Director up to \$2,400.00 or deferred compensation in the same amount in lieu of health insurance. The Assistant Director is offered reimbursement for health insurance on a pro-rated basis according to hours worked. For the 2005-2006 fiscal year, the Director chose deferred compensation.

The largest non-salary related expenditures are for collection expenditures on books, periodicals and audio-visual materials. These amount to approximately 14% of the budget, as they did in the 2004-2005 fiscal year.

### **The Library Funds**

The Library uses a General Fund to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues, as noted, are derived mainly from property taxes and other intergovernmental revenues.

### **The Library's Budgetary Highlights**

Over the course of the year, the Library Board of Trustees amended the General Fund's budget to address unplanned needs that occurred during the year. The General Fund amendments reflected rent at commercial value in a local market, instead of the public school where the library has previously rented space. During the course of the year, several code use designation issues arose with the county building office. Solving these issues included the rearrangement of shelving and collection materials within the library's market space. Volunteer labor was used, with lunch being provided to volunteers and staff on moving days. "Activities" and "Payroll" line item numbers were both higher than originally budgeted because of these issues. "Supplies" were also higher due to our location outside of the public school.

Revenues were higher than budgeted due to donations, higher property tax assessments (up \$6,956.00 from the previous year), and higher than anticipated interest earnings.

The Board of Trustees conducted a campaign for donations to the operating fund to cover increased expenses while out of the school. The campaign, called *A Thousand and One Donations*, resulted in an increase of donations to the operating fund of \$9,786.00 over donations in 2004-2005.

### **Capital Assets and Long Term Debt Activity**

At the end of the fiscal year, the Library had \$139,410.00 invested in land, furniture, equipment, books, and audio-visual materials. The land is currently unimproved upon. Until May 15, 2005, the Library rented its space from Traverse City Area Public Schools. A temporary move to commercial space was precipitated by a renovation plan at the school.

The Library's long-term debt activity consists of capped accumulated compensation employee absences (sick leave, vacation and personal days) for the Director and Assistant Director. When either of these employees terminates employment, they shall be paid one half of the cumulative sick time not to exceed 30 days. Compensatory and vacation time shall be used by the end of every calendar year with the exception that one week may be carried over into the following year. Compensated absences account for \$1,556.00 of the fiscal year's long-term debt activity.

### **Next Year's Anticipated Budget Factors**

The Traverse City Area School District has recently completed a major renovation in the building where the library had leased its space. A temporary move to a local market has increased rent and supply expenditures. The anticipated move-back date into the school is August 15, 2006. Rent, at \$6,000.00 per year for three years including maintenance and utilities, will be considerably lower than the \$12,000.00 per year (not including maintenance) incurred at the market location. There will be increased expenditures due to the remodeling of the library office, additional shelving needs and some interior decorating requirements.

**PENINSULA COMMUNITY LIBRARY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

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**ASSETS**

**Current Assets**

Cash	\$ 3,273
Due from Peninsula Township	324,434
Accounts receivable - State of Michigan	954
Prepaid memberships and dues	469
Equipment deposit	5,382
Rental deposit	1,000
Total Current Assets	<u>\$ 335,512</u>

**Noncurrent Assets**

Capital assets	\$ 367,042
Less: Accumulated depreciation and amortization	<u>(227,632)</u>
Total Noncurrent Assets	<u>\$ 139,410</u>

<b>Total Assets</b>	<u><b>\$ 474,922</b></u>
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**LIABILITIES**

**Current Liabilities**

Accrued compensated absences	\$ 879
Total Current Liabilities	<u>\$ 879</u>

**Noncurrent Liabilities**

Noncurrent portion of accrued compensated absences	<u>\$ 1,556</u>
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Total Liabilities	<u>\$ 2,435</u>
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**NET ASSETS**

Invested in capital assets	\$ 139,410
Unrestricted	<u>333,077</u>
<b>Total Net Assets</b>	<u><b>\$ 472,487</b></u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
<u>Functions/Programs</u>		<u>Services</u>	<u>Grants/</u>	<u>Net (Expense)</u>
			<u>Contributions</u>	<u>Revenue and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Governmental activities:				
Library services	\$ 157,303	\$ 1,010	\$ 14,658	\$ (141,635)
<b>General Revenues:</b>				
Intergovernmental:				
District Library				\$ 136,641
State aid				3,994
Penal fines				20,299
Investment income				10,176
Miscellaneous				9
Total General Revenues				<u>\$ 171,119</u>
<b>Change in Net Assets</b>				\$ 29,484
Net assets - beginning of year				<u>443,003</u>
<b>Net Assets - End of Year</b>				<u>\$ 472,487</u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY  
GENERAL FUND  
BALANCE SHEET  
JUNE 30, 2006**

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**Assets**

Cash	\$ 3,273
Due from Peninsula Township	324,434
Accounts receivable - State of Michigan	954
Prepaid memberships and dues	469
Equipment deposit	5,382
Rental deposit	1,000
Total Assets	<u>\$ 335,512</u>

**Liabilities and Fund Balance**

**Liabilities**

Accrued compensated absences	\$ 879
Total Liabilities	<u>\$ 879</u>

**Fund Balance**

Unreserved	\$ 334,633
Total Fund Equity	<u>\$ 334,633</u>
 Total Liabilities and Fund Balance	 <u>\$ 335,512</u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY  
RECONCILIATION OF THE BALANCE SHEET OF THE GENERAL FUND  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

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<b>Fund Balance - Total General Fund</b>	<b>\$ 334,633</b>
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Amounts Reported for Governmental Activities in the Statement  
of Net Assets are different because:

Capital assets used in governmental activities are not  
financial resources and are not reported in the General Fund:

Governmental capital assets	\$ 367,042	
Less: accumulated depreciation	<u>(227,632)</u>	139,410

Long-term obligations are not due and payable in the current  
period and are not reported in the funds:

Long-term portion of compensated absences	<u>(1,556)</u>
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<b>Net Assets - Governmental Activities</b>	<b><u><u>\$ 472,487</u></u></b>
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The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**Revenues**

District Library	\$ 136,641
State aid	3,994
Penal fines	20,299
Charges for services	1,010
Interest and investment earnings	10,176
Donations	13,905
Other	9
Total Revenue	<u>\$ 186,034</u>

**Expenditures**

Salaries	\$ 76,250
Life insurance	99
Payroll taxes	5,832
Pension	6,801
Insurance and bonds	5,618
Rental fee	11,800
Books/periodicals	15,401
Audio visual materials	4,371
Membership and dues	1,779
Supplies	4,720
Community promotion and activities	4,074
Contractual services	503
Professional services	3,500
Communications/telephone	1,251
Repairs and maintenance	245
Miscellaneous	596
Total expenditures	<u>\$ 142,840</u>

**Excess Revenues Over Expenditures** **\$ 43,194**

Fund Balance - Beginning of Year 291,439

**Fund Balance - End of Year** **\$ 334,633**

The accompanying notes are an integral part of these statements.



**PENINSULA COMMUNITY LIBRARY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

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<b>Net change in fund balance - total governmental funds</b>	<b>\$ 43,194</b>
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Amounts reported for governmental activities in the  
Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the costs are allocated over  
their estimated useful lives as depreciation:

Expenditures for capital assets	\$ 20,293	
Less current year depreciation and amortization	<u>(24,198)</u>	(3,905)

Losses on dispositions of capital assets are not reported in the governmental funds		(9,765)
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Current year increase in long-term liability portion of accrued compensated absences is not reported in the governmental funds	(793)
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In-kind donations for capital assets are not recorded in the governmental funds if they are held for use	<u>753</u>
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<b>Change in net assets of governmental activities</b>	<b><u>\$ 29,484</u></b>
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The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

The Peninsula Community Library (the Library) was organized in January, 1999. Prior to that date, the Library's operations were reported in Peninsula Township's financial statements. The Library serves primarily the residents of Peninsula Township, Grand Traverse County, Michigan. The Library operates under an elected Board of Directors consisting of six members.

The criteria established for determining the various governmental organizations to be included in the Library's financial statements include oversight responsibility, scope of public service and special financing relationships. Accordingly, the financial statements of the Library contain all Library funds that are controlled by or dependent upon the Library's executive branch.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Library's basic financial statements include both the Library as a Whole and its individual fund financial statements.

**Government Wide Financial Statements**

The Government Wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The balance sheet includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, restricted, and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Amounts reported as program revenue include charges to patrons for the use of various Library assets and replacement, service, and damage fees.

**Fund Financial Statements**

The Library's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

**PENINSULA COMMUNITY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies (continued)**

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following governmental fund:

**General Fund** - The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library.

**Budgets and Budget Accounting**

The Library adopts a budget for its governmental type fund as required by Public Act 621 of the State of Michigan. The Library follows these procedures in establishing the budget as reflected in the financial statements:

1. In January or February, the Library Board prepares a preliminary budget for the ensuing fiscal year.
2. During May, the budget is legally enacted through passage of a resolution. Amendments to the budget are made during the fiscal year, if necessary.
3. The budget is adopted on a basis consistent with the modified accrual method of accounting.

The Library adopted its budget for the year ended June 30, 2006 at its May 9, 2005 meeting and a statement of revenues and expenditures compared to budget for the year is included on page 24. The last amendment to the budget was made on June 26, 2006.

All funds have positive fund balances at June 30, 2006.

**PENINSULA COMMUNITY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies (continued)**

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted.

**Encumbrance System**

The Library does not use an encumbrance system.

**Cash and Cash Equivalents**

For the purposes of the balance sheet classification, the Library considers all money market accounts and certificates of deposits with maturities of three months or less when purchased to be cash equivalents.

**Cash and Deposits**

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

- Category 1    Deposits that are insured or collateralized with securities held by the Library or by its agent in the Library's name.
- Category 2    Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Library's name.
- Category 3    Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the Library's cash deposits are classified as Category 1.

**Capital Assets** - Capital assets are defined by the Library as assets with an initial cost of \$ 200 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Furniture and equipment, and library books, periodicals, and videos are depreciated using the straight-line method over the following lives:

Furniture and equipment	5-30 years
Library books and audio visual materials	6 years

**PENINSULA COMMUNITY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Compensated Absences**

Employees may use their accumulated compensated absences for vacation, illness, or personal days off. An employee who terminates services will be paid one-half of the cumulative sick time not to exceed 30 days. Compensatory and vacation time shall be used by the end of every fiscal year with the exception that five days may be carried into the following year.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

**Note 2 - Legal or Contractual Provisions for Deposits and Investments**

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act 196, Public Acts of 1998 (effective December 30, 1998), states the Library, by resolution, may authorize the Chief Fiscal Officer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States Government or Federal Agency obligation or repurchase agreements.
- e. In bankers' acceptances of United States banks.
- f. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

**PENINSULA COMMUNITY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 2 - Legal or Contractual Provisions for Deposits and Investments (continued)**

- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686.54 Stat. 739, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.11 to 129.118.
- j. Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150

Certain other restrictions also apply including a requirement for the Board of Directors to formally adopt an Investment Policy that includes specified matters.

**Note 3 - Due From Peninsula Township**

Peninsula Township maintains a trust account for the Library and acts as the financial agent of the Library. This trust account held \$ 324,434 of the Library monies as of June 30, 2006.

**PENINSULA COMMUNITY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 4 - Capital Assets**

Capital asset activity of the Library was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Adjustments and Deletions</u>	<u>Balance June 30, 2006</u>
<b>Assets Not Being Depreciated:</b>				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
<b>Other Capital Assets:</b>				
Leasehold improvements	\$ 7,208	\$ -	\$ (7,208)	\$ -
Furniture and Equipment	63,719	753	(7,037)	57,435
Library collection	250,417	20,293	(11,103)	259,607
Subtotal	\$ 321,344	\$ 21,046	\$ (25,348)	\$ 317,042
<b>Accumulated depreciation and amortization</b>				
Leasehold improvements	\$ 541	\$ 180	\$ (721)	\$ -
Furniture and Equipment	25,213	5,022	(5,661)	24,574
Library collection	193,262	18,996	(9,200)	203,058
	\$ 219,016	\$ 24,198	\$ (15,582)	\$ 227,632
<b>Net Other Capital Assets</b>	102,328	(3,152)	(9,766)	89,410
<b>Net Capital Assets</b>	\$ 152,328	\$ (3,152)	\$ (9,766)	\$ 139,410

Depreciation and amortization for the year ended June 30, 2006 amounted to \$ 24,198. The Library has only one program and therefore there is no allocation necessary for the Statement of Activities.

**Note 5 - Intergovernmental Revenue**

Traverse Area District Library provides an amount not less than .3 mills of the State equalized valuation of taxable property within Peninsula Township to Peninsula Community Library. Peninsula Community Library entered into an associate library agreement with the District Library to provide enhanced library services. Revenue for the twelve months ended June 30, 2006 was \$ 136,641.

**PENINSULA COMMUNITY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 6 - Leases**

The Library is currently leasing its temporary operating facility from Cutler's Peninsula Grocery for \$ 1,000 per month. The lease term is for a twelve month period ending on May 31, 2006 with monthly extensions available through November 30, 2006. Total rental expense for the 2005/06 fiscal year amounted to \$ 11,800.

During December 2005, the Library entered into a lease agreement with Traverse City Area Public Schools for the use of a portion of the Old Mission Peninsula School to be used as an operating location for the Library. Annual rental charges of \$ 6,000 will be payable on or before February 20<sup>th</sup> of each school year. The agreement shall be effective July 1, 2006 through June 30, 2009 unless written notice of a request to review the agreement is given by either party to the other party by March 15<sup>th</sup> of each year the contract is in effect.

**Note 7 - Risk Management**

The Library carries coverage for property damage, liability, wrongful acts and crime claims. Also, the Library has purchased from a commercial carrier worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 8 - Pension Plan**

The Library participates in Peninsula Township's defined contribution (money purchase) pension plan through John Hancock Life Insurance Company. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the Library for the year ended June 30, 2006 was \$ 51,091. Total payroll for the year ended June 30, 2006 was \$ 76,250. Employer contributions are based upon a percentage of annual payroll. Employees may make additional contributions if they so desire. Employees are vested 100% in employer contributions after 20 months of service.

The Library fully funded its required contribution for the year ended June 30, 2006. Current year employer contributions amounted to \$ 6,801, or 13% of the covered payroll. There were no employee contributions this year.

None of the plan's assets are invested in the Township securities or those of related parties. There are no loans from the plan to the Township.



**PENINSULA COMMUNITY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 9 - Trust Funds**

The Peninsula Community Library is the beneficiary of a fund established at the Grand Traverse Regional Community Foundation. No amounts were transferred to the fund by the Library during the year ended June 30, 2006. No income was received from this fund during the year. Total assets in the fund at June 30, 2006 amounted to \$ 62,933 of which \$ 19,176 is available for distribution upon recommendation of a fund advisory board, subject to a variance power held by the Foundation. \$ 43,757 is held in a permanent endowment fund and is not available for distribution. The assets held in the fund are not recorded in the financial statements of the Peninsula Community Library because they are subject to a variance power held by the Foundation which allows the Foundation, in it's sole discretion, to change the beneficiary or withhold amounts from distribution.

**Note 10 - Deferred Compensation Plan**

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by Nationwide Retirement Solutions. The plan, available to all Library employees, permits them to defer a portion of their salary until future years.

All amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries.

**Note 11 - Long Term-Debt**

Summary of Long-Term Debt Transactions:

	Beginning Balance 6/30/05	Increases	Ending Balance 6/30/06
Compensated absences	\$ 765	\$ 791	\$ 1,556

**Note 12 – Subsequent Event**

During August 2006, the Traverse City Area Public Schools completed a major renovation of the Old Mission Peninsula School. The Library has moved back into the school and will use this space as a permanent operating location.

**PENINSULA COMMUNITY LIBRARY**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>Revenues</u></b>				
District Library	\$ 136,641	\$ 136,641	\$ 136,641	\$ -
State aid	2,200	2,200	3,994	1,794
Penal fines	20,000	20,000	20,299	299
Charges for services	1,225	1,225	1,010	(215)
Interest and investment earnings	3,500	3,500	10,176	6,676
Donations	5,000	5,000	13,905	8,905
Other	100	100	9	(91)
Total Revenue	<u>\$ 168,666</u>	<u>\$ 168,666</u>	<u>\$ 186,034</u>	<u>\$ 17,368</u>
<b><u>Expenditures</u></b>				
Salaries	\$ 74,504	\$ 80,000	\$ 76,250	\$ 3,750
Life insurance	200	200	99	101
Payroll taxes	5,700	5,832	5,832	-
Pension	6,781	7,000	6,801	199
Insurance and bonds	5,900	5,900	5,618	282
Rental fee	12,000	12,000	11,800	200
Books/periodicals	15,500	15,500	15,401	99
Education and training	1,300	1,300	-	1,300
Audio visual materials	3,800	4,400	4,371	29
Membership and dues	2,000	3,000	1,779	1,221
Supplies	3,000	4,720	4,720	-
Community promotion and activities	3,400	4,085	4,074	11
Contractual services	800	800	503	297
Professional services	4,500	4,500	3,500	1,000
Contingency	3,000	3,000	-	3,000
Communications/telephone	1,800	1,800	1,251	549
Repairs and maintenance	1,000	1,000	245	755
Miscellaneous	1,850	1,850	596	1,254
Capital outlay	2,000	2,000	-	2,000
Total expenditures	<u>\$ 149,035</u>	<u>\$ 158,887</u>	<u>\$ 142,840</u>	<u>\$ 16,047</u>
<b><u>Excess Revenues Over Expenditures</u></b>	<u>\$ 19,631</u>	<u>\$ 9,779</u>	<u>\$ 43,194</u>	<u>\$ 33,415</u>
<b>Fund Balance - Beginning of Year</b>	<u>291,439</u>	<u>291,439</u>	<u>291,439</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 311,070</u></u>	<u><u>\$ 301,218</u></u>	<u><u>\$ 334,633</u></u>	<u><u>\$ 33,415</u></u>

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

October 27, 2006

Board of Directors  
Peninsula Community Library  
Traverse City, Michigan

In planning and performing our audit of the financial statements of Peninsula Community Library for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Although we did not find any material weaknesses to report, we do have some suggestions for improving your financial accounting system in future years.

**Findings**

The software system used to account for the cost of the Library's resource collection has been producing inconsistent results in reporting the total costs, acquisitions, and dispositions of various collection items. These inconsistencies may, in the future, cause the Library to have materially inaccurate reports as to the total cost and activity within the collection. The cause for these inconsistencies needs to be identified and corrected by the software writer. It is imperative that the Library continues to monitor the NuGen Software as it relates to its accounting function. This should be an area of concern of the Board of Directors and the Library management.

The Board should adopt the Uniform Chart of Accounts for Counties and Local Units of Government in Michigan issued by the Michigan Department of Treasury so that the Library will be in compliance with Act 2 of 1968 and Act 71 of 1919.

*Kalcher, Vanderwal & Torrey, P.C.*

Certified Public Accountants